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UNCLAS SECTION 01 OF 04 RABAT 000176

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SUBJECT: WORLD BANK PROGRAMS IN MOROCCO

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11. (SBU) Summary. The World Bank (WB) is one of the longest serving development assistance programs in Morocco and currently has 16 outstanding loans to the GOM worth a total of approximately \$500 million. It seeks to help modernize Moroccan institutions through technical analysis and lending programs. Currently, areas of concentration are public administration, education, water resource management, economic growth, social housing, rural development and the financial sector. The WB has established a good working relationship with the GOM and seeks to expand its coordination with other bi-lateral and multilateral donor organizations to increase efficiencies and reduce duplication. Although WB cooperation with the USG has historically been low, Morocco's participation in the Millennium Challenge Account (MCA) could change this. Key officers of the WB feel Morocco is moving in the right direction, however, they regret that implementation of WB programs has been very slow. End summary.

12. (U) The WB establishes multi-year country assistance strategies (CAS) that allow it sufficient time to undertake the dozens of tasks it seeks to achieve during the period. The 2005-09 CAS seeks to build on the results of the 2001-04 CAS and together mark a significant increase in WB programming in Morocco from historic levels. The goal of the 2005-09 CAS is to help Morocco with its two main goals: 1) accelerating job growth and sustainable economic growth, and 2) reducing poverty. The 2005-09 CAS seeks to accomplish this through four key objectives. First, improve general economic competitiveness and the investment climate by increasing the efficiency of public administration, ensuring macroeconomic stability, strengthening the financial sector, and increasing competitiveness in the agricultural sector. Second, reduce the number of families living in slums by 60 percent, and increase access of the poor to basic services, social programs, economic opportunities and better housing. Third, improve the quality of the educational system, improve access to education, and raise graduation rates. Fourth, improve water management and access to water services and sanitation. The WB feels the environment for reform has matured in Morocco as demonstrated by King Mohammed VI's National Initiative for Human Development (INDH) to improve social conditions.

THE WORLD BANK PLAN

13. (U) The WB foresees lending \$270 to \$380 million per

year to Morocco from 2005 to 2008 in support of projects related to its aforementioned four objectives. While delays in programming and other changes make actual lending levels difficult to accurately measure, the WB's planned disbursements for 2005-08 are as follows:

Year	Project Description	Loan Amount (in millions)	
2005	Public Administration Reform I	\$100	
	Basic Education Reform I	\$ 80	
	Financial Sector	\$200	
	TOTAL		\$380
2006	Housing	\$100	
	Rural Water and Sanitation	\$ 40	
	Public Administration Reform II	\$100	
	Rural Roads	\$ 30	
	TOTAL		\$270
2007	Public Administration Reform III	\$100	
	Education	\$100	
	Water Resource Management	\$100	
	TOTAL		\$300
2008	Development Policy	\$100	
	Basic Education Reform II	\$100	
	Urban Water and Sanitation	\$100	
	TOTAL		\$300

This equals \$1.25 billion in projected loans over four years in addition to technical analysis programs. The WB feels its ability to offer technical analysis and appropriate levels of financing are its greatest advantage over typical donor organizations. Major technical analysis programs

RABAT 00000176 002 OF 004

during the 2005-09 CAS will cover the fields of: education, pension reform, public administration reform, investment climate assessment, water management, health insurance, land titling, poverty alleviation, agricultural reform, housing, social analysis, environmental impact studies, and gender/labor markets. Together these programs have a cost of approximately \$2 million.

PROGRAMS

14. (SBU) Macroeconomic stability is among the Public Administration Reform Loans' (PARL) key objectives. The GOM seeks to reduce its budget deficit to 3 percent of GDP, control the state's contingent liabilities, and maintain inflation below 2.5 percent. One of the chief constraints to this is a public wage bill that equaled 12.8 percent of GDP in 2004 and that the PARL seeks to reduce to 11 percent by 2009. The WB's Country Manager, Ferid Belhaj, reported that the GOM has made good progress so far by lowering the rate to 12.1 percent in 2005, but this cost the GOM nearly \$1 billion in severance packages and other costs. Now, the GOM must be resolute not to fall prey to the typical problem of countries in this situation of bowing to public pressure to hire new employees to replace those who were laid off as a way of battling high unemployment. The GOM estimated a 4.5 percent budget deficit for 2005, but this does not include funds used in the Hassan II Fund for social programs. According to the WB, the true deficit is closer to 7 percent. By 2009, the WB hopes to reduce the budget deficit to 3.6 percent, but this will be difficult due to Morocco's narrow tax base and large contingent liabilities related to the pension system and specialized banks. All three of these issues are addressed by the PARLs. For the past several years, privatization receipts have helped cover the budget deficit. However, with most major privatizations complete, these funds will not be as readily available in the future. The current deficit level is unsustainable and

if it is not reduced the WB's Senior Economist, Khalid Masserouri, fears interest rates will rise, thus discouraging foreign investment, hurting the GOM's credibility and crowding out funds for social programs.

15. (U) At the same time, the WB will try to increase the efficiency of Morocco's public administration. The PARLs will be used to rationalize the current overly complex budget process, improve accountability, and increase transparency and efficiency of human resource management within all ministries. They will also try to increase the competitiveness of the economy and employment opportunities (specifically by supporting small and medium enterprises), develop vocational training programs, improve the mobility of labor, and make improvements to infrastructure. The WB envisions improving the field of land titling, increasing employers' flexibility in hiring and laying off employees, expanding urban transport, promoting finance reform and decreasing the processing time for imports and exports to promote trade. At the same time, the WB will try to stimulate growth in the agriculture sector by promoting land and investment reforms; improving competitiveness, quality and vertical integration of the cereals, vegetable, olive, citrus and livestock sectors; and promoting the means for drought insurance. The WB is partnering with the European Union (EU), the IMF, the African Development Bank (AFDB), and others to promote these changes.

16. (U) The second major objective of the WB is to increase access to basic services for the poor. The WB will offer several loans related to low income housing, sewage and water treatment, health management, social development, and rural road construction during CAS 2005-09. Key programs will include the following. The supply of social housing units is forecast to more than double to 100,000 units by 2007. Reforms will be enacted in the urban planning code, real-estate tax law and house rental sector. Health insurance coverage for the poor is targeted to increase from 15 percent of the population in 2004 to 50 percent in 2009, and access to rural roads to increase by 20 percent by 2008. The WB will partner with the EU, the World Health Organization, AFDB, and French bilateral cooperation in this endeavor.

17. (U) The WB's third key objective is educational assistance. Programs for the CAS 2005-09 will seek to increase the level of girls' elementary school attendance from 89 percent in 2004 to 97 percent in 2008, and rural middle school attendance from nine percent in 2004 to 40

RABAT 00000176 003 OF 004

percent in 2008. Concerning both genders, the WB programs aim to increase primary school completion rates from 64 percent in 2004 to 87 percent in 2008 and middle school from 54 percent in 2004 to 71 percent in 2008. Other WB programs will increase the number of rural communities that have access to middle school instruction, close the gender gap in literacy, provide increased levels of education sector management training, and adopt results-based budgeting by 2009. In the field of secondary school, the WB will offer programs to increase the number of "professionally qualified" people entering the job market from the current level of 20 percent to 50 percent in 2009; and increase the employment rate of vocational training graduates from 55 percent to 75 percent by 2009. Other programs will seek to boost the private sector's involvement in higher education and strengthen universities' financial autonomy. The Canadian International Development Agency (CIDA) is a major partner in this cause.

18. (U) The final major objective of CAS 2005-09 programming involves water-related issues. The WB will work to rationalize the water pricing system to cover normal exploitation and maintenance costs; improve collection rates for irrigation, extraction and discharge fees; improve the

supply of water sanitation for poor urban and peri-urban neighborhoods; reach a good water quality rating from 70 percent of water quality measuring stations; and establish a new tariff and performance regulation system by 2009. Currently, insufficient coordination is hampering the sector as demand for water is increasing and the shortage of water is growing. The WB programs aim to establish a National Water Savings plan by 2006, implement a national treatment strategy by 2007, implement autonomous sanitation strategies for rural zones by 2006, and define clear and realistic sectoral policy objectives for all actors by 2006. Major partners include CIDA, the French Development Agency and the EU.

APPRIISING THE SITUATION

19. (SBU) Belhaj noted that the GOM was "on the right track," but its record on implementation was poor. He said numerous decrees related to water management had been adopted 10 years ago, but had still not been implemented. He noted bureaucratic problems within the GOM, which he said had very good senior managers, but weak mid-level managers. He also questioned how GOM decisions were made. Belhaj added that Morocco must increase its level of economic growth considerably in order to reduce its high rate of unemployment, but current forecasts of 6 percent GDP growth were unrealistic with the current policies the GOM had in place. He also strongly noted that economic growth must come from the private sector, but that Morocco's private sector was not sufficiently dynamic or entrepreneurial. Masserouri added that Morocco was one of the 10 worst countries in the world regarding the inflexibility of its labor market. The inability of employers to lay off workers prevented them from hiring sufficiently large workforces to pursue new or temporary business opportunities. He added that Morocco had the 20th highest personal income tax rate in the world, which served to stifle economic growth and encourage a thriving black market (estimated at 60 percent of GDP). He also faulted the GOM's trade regime that continues to protect uncompetitive firms and allows numerous non-tariff barriers. Finally, Masserouri said that the Moroccan economy lacks sufficient innovation, research and development, and IPR protection.

LESSONS LEARNED

110. (SBU) Looking back, the WB considers the CAS 2001-04 to have been "moderately satisfactory," but that it had too many activities, was too fragmented, and did not link outcomes to measurable indicators. It had planned to make 18 loans during the period, but only nine were actually made. In addition, slow implementation resulted in most projects being delayed 12 to 36 months. Historically, cooperation between the WB and the USG has been low, but this could change as the WB seeks to increase coordination with other donors. Currently, the WB is in discussions with the GOM regarding its possible participation in the INDH. Masseroui expects a large program to be announced in early 2006 geared towards rural development projects much like the

RABAT 00000176 004 OF 004

GOM originally proposed for the Millennium Challenge Corporation (MCC). In addition, Belhaj claimed that the INDH was based on the CAS 2005-09. To what degree, if any, the MCC might cooperate with the WB has yet to be decided, but the two organizations have met to exchange information. The WB should serve as a good source of information for any USG assistance programs operating in Morocco such as USAID, the Middle East Partnership Initiative and the MCC.

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